

**TESTIMONY  
OF  
STEVE EWING**

VICE CHAIRMAN  
DTE ENERGY

CHAIRMAN  
AMERICAN GAS ASSOCIATION

MICHIGAN HOUSE OF REPRESENTATIVES  
COMMITTEE ON ENERGY & TECHNOLOGY

JANUARY 25, 2006  
LANSING, MI

GOOD MORNING. THANK YOU VERY MUCH FOR THE OPPORTUNITY TO ADDRESS YOU THIS MORNING.

I AM STEVE EWING AND I AM VICE CHAIRMAN OF DTE ENERGY, MICHCON, WHICH IS A UNIT OF DTE ENERGY, THAT DELIVERS NATURAL GAS TO MORE THAN 1.2 HOMES, BUSINESSES AND INSTITUTIONS ACROSS MICHIGAN.

I ALSO AM THE CHAIRMAN OF THE AMERICAN GAS ASSOCIATION, WHICH REPRESENTS 195 UTILITIES ACROSS THE COUNTRY THAT DELIVER NATURAL GAS TO MORE THAN 55 MILLION CUSTOMERS. AND HAVE SERVED AS A MEMBER OF THE AGA'S NATURAL GAS SUPPLY TASK FORCE.

LIKE YOU AND YOUR CONSTITUENTS, I AND MY COLLEAGUES HAVE GROWN INCREASINGLY ALARMED AS NATURAL GAS PRICES HAVE TRENDED UP TO HISTORIC, UNPRECEDENTED HIGHS.

### **(IMPACT ON CUSTOMERS SLIDE)**

AS A RESULT, MICHIGAN'S RESIDENTIAL NATURAL GAS CONSUMERS ARE PROJECTED TO SPEND \$60 TO \$80 MORE PER MONTH THIS WINTER THAN LAST WINTER.

IT MAY SEEM COUNTER-INTUITIVE, BUT TODAY'S EXTRAORDINARILY HIGH NATURAL GAS PRICES ARE BAD FOR CUSTOMERS; BAD FOR THE ECONOMY AND BAD FOR UTILITIES, LIKE MICHCON.

MOST OBSERVERS READILY UNDERSTAND WHY HIGHER PRICES ARE HARMFUL FOR CONSUMERS AND THE ECONOMY, BUT THEY FAIL TO APPRECIATE THAT THEY ARE ALSO HARMFUL FOR NATURAL GAS UTILITIES.

### **(GCR FACTOR SLIDE)**

BY LAW AND REGULATION, NATURAL GAS UTILITIES IN ALMOST ALL CIRCUMSTANCES ARE NOT PERMITTED TO MARK-UP THE PRICE OF NATURAL GAS THAT THEY

ACQUIRE FOR THEIR CONSUMERS AND MUST INSTEAD SELL THE GAS TO CONSUMERS AT EXACTLY THE SAME PRICE THEY PAY FOR IT. THE LARGEST PORTION OF THE CUSTOMER'S NATURAL GAS BILL – 81 PERCENT – IS THE COST OF THE NATURAL GAS ITSELF. THIS PROCESS IS OVERSEEN BY STATE PUBLIC SERVICE COMMISSIONS AND IS SUBJECT TO REVIEW AND AUDIT.

NATURAL GAS UTILITIES EARN THEIR INCOME BY DELIVERING NATURAL GAS TO THEIR CUSTOMERS. UNDER THE MOST BASIC PRINCIPLES OF ECONOMICS, TODAY'S HIGHER NATURAL GAS PRICES MEAN THAT CUSTOMERS WILL CONSUME LESS NATURAL GAS.

AS A CONSEQUENCE, NATURAL GAS UTILITIES WILL DELIVER LESS NATURAL GAS, REDUCING THE REVENUES PAID TO THEM FOR SERVICES PERFORMED FOR THEIR CUSTOMERS. AS A RESULT, AND CONTRARY TO THE BELIEF OF SO MANY, THE INTERESTS OF CONSUMERS AND OF NATURAL GAS UTILITIES ARE ALIGNED ON THIS ISSUE.

BOTH WANT LOWER NATURAL GAS PRICES AND RELIABLE NATURAL GAS SUPPLY.

IT IS FROM THIS PERSPECTIVE THAT I WOULD LIKE TO ADDRESS SEVERAL TOPICS WITH YOU THIS MORNING:

- HOW DID PRICES GET TO BE SO HIGH,
- WHERE DO WE SEE THEM GOING,
- WHAT CAN WE DO TO HELP BRING THEM DOWN, AND
- WHAT CAN WE DO TO HELP CUSTOMERS COPE.

SO, HOW DID NATURAL GAS PRICES GET TO BE SO HIGH?

### **(GAS PRICES SLIDE)**

FIRST, THEY'VE BEEN TRENDING UP OVER THE PAST DECADE. GOING BACK ABOUT 10 YEARS, NATURAL GAS COULD BE HAD FOR LESS THAN \$2 PER THOUSAND CUBIC FEET (MCF). IN THE COURSE OF THOSE 10 YEARS, OUR ECONOMY HAS GROWN AND MORE AND MORE NATURAL GAS HAS BEEN USED TO GENERATE ELECTRICITY.

## **(ENERGY CONSUMPTION SLIDE)**

TODAY, NATURAL GAS ACCOUNTS FOR ROUGHLY 25 PERCENT OF THE UNITED STATES' PRIMARY ENERGY CONSUMPTION.

TO UNDERSTAND THE FORCES DRIVING NATURAL GAS PRICES, IT'S IMPORTANT TO UNDERSTAND THE STRUCTURE OF THE NATION'S NATURAL GAS INDUSTRY.

## **(NATURAL GAS DISTRIBUTION PROCESS SLIDE)**

IT CONSISTS OF THREE PARTS – PRODUCTION AND PROCESSING; THE TRANSMISSION SYSTEM, THAT IS THE NETWORK OF INTERSTATE PIPELINES THAT MOVE THE GAS FROM PROCESSING PLANTS TO THE THIRD PART OF THE SYSTEM, THE LOCAL DISTRIBUTION COMPANIES (OR UTILITIES) THAT DELIVER THE GAS TO INDIVIDUAL HOMES AND BUSINESSES.

THE HIGHER PRICES WE ARE SEEING ARE TRACED TO THE PRODUCTION PORTION OF THE PROCESS.

**(LOWER 48 PRODUCTION VS. PRODUCTIVE CAPACITY SLIDE)**

A DECADE AGO, THERE WAS EXCESS CAPACITY IN THE LOWER 48. GRADUALLY, THE DIFFERENCE BETWEEN PROUCTIVE CAPACITY AND PRODUCTION DIMINISHED TO THE POINT WHERE, TODAY, THERE VIRTUALLY IS NO EXCESS PRODUCTIVE CAPACITY.

**(POWER GENERATION DEMAND SLIDE)**

DEMAND HAS GROWN AND THE PLACE WHERE IT HAS GROWN THE MOST IS AMONG POWER GENERATORS. BECAUSE IT IS THE CLEANEST-BURNING OF THE FOSSIL FUELS NATURAL GAS BECAME THE PREFERRED AND DOMINANT FUEL FOR NEW ELECTRIC GENERATION FACILITIES. ELECTRIC GENERATION HAS BECOME THE FASTEST GROWING SECTOR OF NATURAL GAS DEMAND.

SUPPLY IS NO LONGER KEEPING UP WITH DEMAND. THE UNITED STATES PRODUCES ROUGHLY 50 BILLION CUBIC FEET OF NATURAL GAS A DAY. WE CONSUME 60 BCF A DAY. THE DIFFERENCE IS MADE UP BY IMPORTS – MOST FROM CANADA AND SOME LIQUEFIED NATURAL GAS (LNG). ANYTHING THAT DISRUPTS THE BALANCE – A STEADY INCREASE IN DEMAND TO GENERATE ELECTRICITY, SEVERE WEATHER – WINTER OR SUMMER – OR HURRICANES IN THE GULF CREATES AN UNSTABLE ENVIRONMENT THAT IS REFLECTED IN VOLATILE PRICES.

WE SAW AND EXPERIENCED THE IMPACT OF SEVERE WEATHER IN SEPTEMBER IN THE FORM OF HURRICANES KATRINA AND RITA.

### **(HURRICANE IMPACT SLIDE)**

KATRINA AND RITA EXACERBATED AN ALREADY DIFFICULT SITUATION. MORE THAN ONE-FIFTH OF AMERICA'S NATURAL GAS PRODUCTION IS IN THE GULF OF MEXICO.



MORE THAN 3,000 OF THE 4,000 NATURAL GAS PRODUCTION RIGS WERE IN THE PATH OF THE TWO HURRICANES.

**(KATRINA DAMAGED RIG SLIDE)**

LOOKING AT THIS BEFORE-AND-AFTER IMAGE, IT'S EASY TO UNDERSTAND THE IMPACT OF THE STORMS AND THE MAGNITUDE OF THE WORK NECESSARY TO GET PRODUCTION BACK ON LINE. IMMEDIATELY AFTER EACH OF THE TWO STORMS, ROUGHLY

**8 BILLION CUBIC FEET** OF DAILY NATURAL GAS PRODUCTION WAS SHUT-IN.

IN ADDITION, MORE THAN 20 NATURAL GAS PROCESSING PLANTS WERE SHUT DOWN. PRICES SHOT PAST \$15 PER MCF.

WHILE GREAT STRIDES HAVE BEEN MADE GETTING RIGS AND PROCESSING PLANTS BACK IN OPERATION, 1.5 BCF OF DAILY PRODUCTION PROBABLY WILL NOT RESUME FLOWING UNTIL THIS SPRING.

THAT SAID, WE'VE BEEN FORTUNATE THAT THE PAST FEW WEEKS HAVE BEEN WARMER THAN NORMAL. THAT'S HAS HELPED BRING WHOLESALERE NATURAL GAS PRICES DOWN FROM THEIR HISTORIC HIGHS.

BUT THE ONLY LONG-TERM ANSWER TO HIGH PRICES INVOLVES BRINGING MORE SUPPLIES TO MARKET.

THE ACTION REQUIRED IS SIMPLE, BUT THE POLITICS ARE DIFFICULT.

**(MAJOR PORTION OF RESOURCE BASE SLIDE)**

PRODUCERS NEED INCREASED ACCESS TO FEDERAL LANDS.

PERMITTING FOR ENVIRONMENTALLY RESPONSIBLE PRODUCTION MUST BE EXPEDITED.

## **(IS LNG ECONOMIC SLIDE)**

THE ECONOMICS FAVOR LNG AS A MID-TERM SOLUTION. MOREOVER, NATURAL GAS IS A GLOBALLY ABUNDANT RESOURCE. ANNUAL WORLDWIDE CONSUMPTION IS ESTIMATED TO BE LESS THAN 2 PERCENT OF PROVEN GLOBAL RESERVES. AS YOU CAN SEE, SEVERAL NEW SUPPLIES FACILITIES ARE UNDER CONSTRUCTION WORLDWIDE WITH MANY MORE HAVING ALREADY BEEN PROPOSED.

## **(ALASKAN GAS SLIDE)**

ALASKAN GAS CAN AND SHOULD BE PART OF OUR LONGER-TERM SUPPLY EQUATION.

ALASKAN NATURAL GAS IS CURRENTLY BEING INJECTED BACK INTO GROUND BECAUSE THERE IS NO PIPELINE TO BRING IT TO MARKET. IT WILL BE A MASSIVE, MONUMENTAL UNDERTAKING. WE ARE TALKING ABOUT A

PIPELINE STRETCHING MORE THAN 5,000 FEET FROM THE NORTH SLOPE.

INCREASED SUPPLY IS AT THE HEART OF ANY RESPONSIBLE LONG-TERM ENERGY POLICY. SO TOO IS THE NEED FOR FUEL DIVERSITY IN THE GENERATION OF POWER. IN PLAIN ENGLISH, WE NEED TO BUILD POWER PLANTS USING CLEAN COAL TECHNOLOGY AND NUCLEAR POWER.

MICHIGAN POLICYMAKERS WILL BE TAKING UP THIS MATTER AS THE DIALOGUE CONCERNING THE MPSC'S ELECTRIC CAPACITY NEED FORUM BEGINS.

WHILE AND UNTIL THOSE THINGS ARE ACCOMPLISHED, WE NEED TO HELP OUR CUSTOMERS MANAGE THE HIGHER GAS AND ELECTRICITY COSTS THEY ARE FACING.

**(WHAT CAN CUSTOMERS DO SLIDE)**

JUST WHAT CAN CUSTOMERS DO?

AT THE TOP OF THE LIST IS SOMETHING THAT APPLIES TO ALL CUSTOMERS ... CONSERVE.

DIAL DOWN. USE A PROGRAMMABLE THERMOSTAT. CHANGE FURNACE FILTERS TO HELP YOUR FURNACE RUN AS EFFICIENTLY AS POSSIBLE. TURN DOWN THE WATER HEATER. WRAP IT IN A WATER HEATER BLANKET. CAULK ANY OPENING THAT IS LETTING COLD ARE IN AND WARM AIR OUT.

LAST WEEK, I HAD THE HONOR OF STANDING WITH GOV. GRANHOLM AND OTHERS IN SUPPORT OF AN EFFORT TO HELP MORE CONSUMERS BETTER MANAGE THEIR ENERGY CONSUMPTION.

CUSTOMERS SHOULD ALSO ENROLL IN THE BUDGET PROGRAM TO LEVELIZE THEIR PAYMENT MONTH PAYMENT. MOST IMPORTANTLY CUSTOMERS SHOULD CONTACT THEIR NATURAL GAS UTILITY BEFORE THEY FACE AN EMERGENCY SITUATION.

THERE ARE A NUMBER OF OTHER ACTION ITEMS ON OUR LIST.

**(SUMMARY OF ACTION ITEMS SLIDE)**

THE LEAST FORTUNATE AMONG US – LOW-INCOME CUSTOMERS AND ESPECIALLY LOW-INCOME SENIORS, ARE IN NEED OF DIRECT FINANCIAL ASSISTANCE.

CONGRESS RECOGNIZED THE POTENTIAL IMPACT OF HIGHER NATURAL GAS PRICES EARLIER THIS YEAR. IT TOOK THE FIRST STEP IN RESPONDING TO THE NEED BY INCREASING FUNDING AUTHORIZATION FOR THE LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM TO \$5.1 BILLION.

BUT CONGRESS STILL NEEDS TO TAKE THE NEXT STEP ... INCREASING THE AMOUNT ACTUALLY APPROPRIATED. WE AND OUR ALLIES IN MICHIGAN AND AROUND THE COUNTRY CONTINUE TO LOBBY FOR A SIGNIFICANT INCREASE.

THE \$2.1 BILLION CURRENTLY APPROPRIATED TO LIHEAP IS WHOLLY INADEQUATE TO MEET THE NEED. NATION-WIDE, THE NUMBER OF HOUSEHOLDS ELIGIBLE FOR LIHEAP ASSISTANCE IS ESTIAMTED TO GROW TO ABOUT 5.6 MILLION, THE LARGEST NUMBER IN A DOZEN YEARS. CURRENT FUNDING LEVELS WILL PROVIDE ASSISTANCE TO LESS THAN 15 PERCENT OF THOSE ELIGIBLE.

LAST YEAR MICHCON'S LOW-INCOME CUSTOMERS RECEIVED MORE THAN \$59 MILLION IN ASSISTANCE. NEVERTHELESS, ARREARS FOR LOW-INCOME CUSTOMERS INCREASED BY MORE THAN \$105 MILLION.

AT THE STATE LEVEL, THAT ASSISTANCE HAS COME IN THE FORM OF GRANTS FROM THE LOW-INCOME & ENERGY EFFICIENCY FUND. FOR YEARS DETROIT EDISON CUSTOMERS HAVE BEEN THE SOLE CONTRIBUTORS TO THE FUND. WE COMMEND THE MPSC FOR BRINGING CONSUMERS ENERGY'S ELECTRIC CUSTOMERS INTO THE FUNDING EQUATION.

EVEN IN THE CURRENT HIGH-PRICE ENVIRONMENT, WE WANT OUR CUSTOMERS TO UNDERSTAND THAT WE ARE WILLING TO WORK WITH THEM TO HELP THEM MANAGE AND PAY THEIR BILLS. WE HAVE A NUMBER OF PROGRAMS AND ARE AN ACTIVE PARTNER IN STEERING CUSTOMERS TO SOURCES OF ASSISTANCE.

WE ALSO RECOGNIZE THAT WITH NATURAL GAS PRICES WHERE THEY ARE, SOME ARE GIVING IN TO THE TEMPTATION TO BYPASS OUR METERS ALTOGETHER. ENERGY THEFT IS A SERIOUS MATTER. NOT ONLY IS NOT FAIR TO CONSCIENTIOUS CUSTOMERS WHO PAY THEIR BILLS, IT IS DANGEROUS. WE ARE INCREASING OUR EFFORTS TO IDENTIFY AND PROSECUTE THOSE WHO ARE STEALING.

WE AND OUR FELLOW MICHIGAN UTILITIES ARE DOING ALL WE CAN IN THE SHORT-TERM. WE ARE PUTTING INFORMATION AND TOOLS IN THE HANDS OF OUR



CUSTOMERS. WE ARE REACHING OUT TO CUSTOMERS WHO SIMPLY ARE OVERWHELMED BY THEIR ENERGY BILLS.

IT IS TIME FOR POLICY MAKERS, HERE IN LANSING AND IN WASHINGTON TO FOCUS ON POLICIES THAT WILL INCREASE SUPPLIES, ENCOURAGE FUEL DIVERSITY AND PROVIDE ADEQUATE LEVELS OF ASISSTANCE. IT IS WITH THESE TASKS THAT I ASK YOUR ASSISTANCE.

THANK YOU.